C&C YACHTS LTD

Annual Report for the year ended September 30, 1970

C&C Yachts Limited
10 Front Street South Port Credit Ontario

WHOLLY OWNED SUBSIDIARIES

Belleville Marine Yards Limited
Cuthbertson & Cassian Limited
Bruckmann Manufacturing Limited
Hinterhoeller Ltd.

DIRECTORS & OFFICERS

Cuthbertson, George H.	Chairman of Board Vice-President and Director
Morch, Ian F.	President and Director
Bruckmann, Erich K. L.	Vice-President and Director
Hinterhoeller, George A.	Vice-President and Director
Sale, Robert R.	Director
Gray, John S.	Secretary-Treasurer

AUDITORS

Messrs. McDonald, Currie & Co.,
Chartered Accountants 120 Adelaide St. W., Toronto, Ontario

LEGAL COUNSEL

Messrs. Miller, Thomson, Hicks, Sedgewick, Lewis & Healy
7 King St. E., Toronto, Ontario

TRANSFER AGENT & REGISTRAR

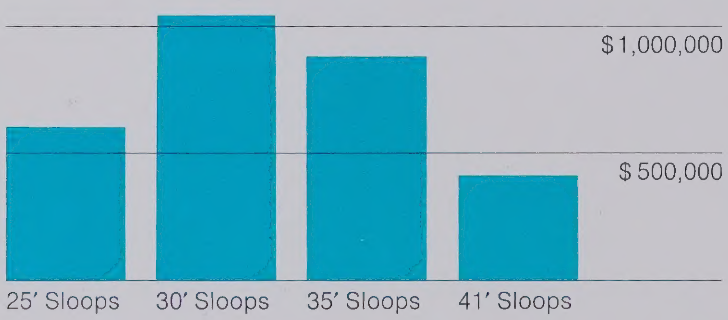
Royal Trust Company, Toronto & Montreal

Report of the directors to the shareholders

The consolidated financial statements of C & C Yachts Limited and its Subsidiaries for the year end September 30, 1970, together with the report on operations and the report of the auditors are submitted on behalf of your Board of Directors.

Financials

Sales were satisfactory as they increased 15% over the comparable period a year ago and compared with the total sailboat industry gain of less than 3%. Sales of boats of similar size and type to those sold by C & C Yachts Limited declined 9.6%. A graph indicates the distribution of sales by classification of production boats:



Orders for $350,000 of Custom Boats were received, however delivery was not in this fiscal period and hence not included in revenue.

Cash flow and net income, while lower than anticipated are satisfactory in light of the deteriorating economy throughout 1970, and the Government's unpegging of the dollar, and the normal increases in the costs of operations.

The 1970 net earnings after all normal operating charges amount to $78,205 equivalent of 8¢ a share and $69,436 after the extraordinary loss on exchange or 7¢ per share. Cash flow from operations was approximately 22¢ per share.

The working capital position of the Company remains healthy with a ratio of current assets to current liabilities of 2:1, a slight improvement from our opening proforma ratio of 1.9:1.

The depreciated value of fixed assets has increased from $387,666 to $809,507 which is attributable to plant expansions and increased production equipment, the latter including a large amount of tooling for new boats.

In 1970 various factors contributed to depressed earnings, some of which were controllable, others not. A sales forecast, predicated on orders in hand, did not materialize and the effects did not become apparent until the last quarter. Production was increased early in the year to meet this apparent demand which subsequently waned and production had to be cut back, causing layoffs. Some excess inventory of product lines being phased out was sold at increased discounts to convert into cash and preserve liquidity. Furthermore, a small number of completed boats remained unsold at the end of the fiscal period.

The Canadian Government's decision to revalue the Canadian dollar resulted in a loss on the settlement of outstanding U.S. dollar accounts and an even greater loss was suffered due to decreased income of approximately 6% on all U.S. sales from May 31 to September 30.

Marketing and administrative expenses had been budgeted to a 5 million dollar sales forecast, and in light of the subsequent lower sales volume, unit costs were increased.

Steps have been taken to rectify costing problems which resulted in an unexpectedly large inventory adjustment at the year end, as well as causing an overstatement of interim earnings.

Operations — General

This has been a year of consolidating the operations and philosophies of the four Subsidiary Companies and their Parent, the former having carried on partially integrated operations employing various methods and different standards and procedures.

The merger, however, as intended, has made it possible to achieve a unified marketing program, to co-ordinate production capacity, to obtain more financing for inventory and to standardize not only accounting policies and procedures, but production standards. We believe that the time, energy and expense relating to the above programs has been well spent, and now that these are substantially complete, it will improve our competitive position.

Production

Original plant capacity was increased from 47,400 square feet at the beginning of the year by 38,400 square feet. These increased facilities required cash outlays from the public financing. These were not, however, sufficient and we had to increase our Custom Boat facilities by 6,400 square feet. The financial effects are included in this fiscal period. The Company has reduced

production costs with more sophisticated tooling and standardized assembly techniques and is continuing its studies. These studies not only relate to cost savings but to standardizing procedures in all plants in an effort to achieve the highest possible product excellence. Unified purchasing of standard parts and materials is used wherever economies can be effected.

As evidence of the flexibility of our new production program, we are now in a position to manufacture similar models at different locations to meet changes in consumer demand.

Marketing

We increased our network of dealers in the United States to 23 from 15 and have developed a Canadian network of 5 outlets. C & C Yachts Limited has recently set up a Retail Showroom and Sales Office in Oakville which appropriately displays the Company's products.

Advertising is done at both the national and local level using appropriate media as well as other point of sale promotions.

The product line has been under constant review and rationalization and the emergence of our new line introduced by the performance oriented C&C 35 has been well received and now includes the C&C 27, C&C 30, and we will have added the C&C 39 to this line by the end of the model year. New models make a great impact and to reap these benefits, new designs are constantly being introduced as appropriate. A cruising line of sailboats is being developed permitting us to cater to a broader market and at the same time we are consolidating the product line by taking out of production some of the older designs. The restructuring of our product lines will give our dealers a comprehensive package which will give us deeper market penetration and increased volume.

Our Custom Boats have experienced a strong demand and a reinforcing system of distribution superimposed on our dealer network provides effective sales coverage.

Administrative and Accounting

A monthly computer print-out service has been introduced at all plant locations. Difficulties experienced in analysing all of the requirements, installing the system, and effectively training our personnel to use this very sophisticated approach have now been eliminated. The benefits derived from this system will make reporting simpler and quicker, and will provide the necessary detail for more effective reporting to both management and shareholders, as well as cost control.

Prospects

The strong position that the Canadian and United States Governments have taken with respect to increasing the economic tempo, decreasing inflation and unemployment, is just one of the several indications that 1971 will bring about increased business. Reduced interest rates and historically high savings could spur the consumer to spend if psychologically readjusted, and recent stock market activity suggests just this.

We have an order backlog and undelivered boats to the value of 3.4 million dollars secured by deposits. This is much higher than at this time last year, and consequently we believe that our present sales forecast of 4.5 million is conservative.

Additional income is expected from Franchise Agreements which relate to the manufacture and sale of C & C designed yachts throughout the world. The first of these franchises has now been established in the United Kingdom and we are in the process of negotiating several other contracts.

By way of policy, the Company is actively investigating the merits of entering into the industrial applications of reinforced fiberglass, and has had some small degree of success already. It is hoped that this can be developed into a substantial volume with a corresponding contribution to income. We believe we have stabilized sales and administrative expenses by controlled budgets, increased our prices to counteract the exchange rate, and the increases in materials and labour that are expected this year. We believe that these increases have not impaired our competitive position, although the increases in some cases have been necessarily higher due to the exchange rate.

Our recent appointments to our Accounting staff will reinforce control of the important area of cost accounting as well as accounting in general. We are therefore confident that 1971 should not only see increased sales but increased profits.

We appreciate the loyal support of our shareholders and employees, all of whom have made substantial contributions to the Company, and whom we hope will continue to support these activities.

Submitted by Ian F. Morch, President, for and on behalf of the Directors.

C&C Yachts Limited and subsidiary companies

Consolidated balance sheet as at September 30, 1970

ASSETS

CURRENT ASSETS	
Cash	$ 105,860
Accounts receivable (note 2)	472,156
Inventories — at the lower of cost or net realizable value (note 3)	713,635
Income taxes recoverable	64,404
Prepaid expenses	19,767
	1,375,822
INVESTMENT — at cost (quoted value $12,200)	100
FIXED ASSETS (note 4)	809,507
EXCESS OF COST OF INVESTMENT IN SHARES OF SUBSIDIARIES OVER BOOK VALUE OF THE NET ASSETS	2,492,992
	$4,678,421

AUDITORS' REPORT TO THE SHAREHOLDERS

January 6, 1971

We have examined the consolidated balance sheet of C & C Yachts Limited and subsidiaries as at September 30, 1970 and the consolidated statements of earnings, retained earnings and source and use of working capital for the period from September 26, 1969 to September 30, 1970. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1970 and the results of their operations and source and use of their working capital for the period then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal periods of the subsidiary companies referred to in note 1(a).

McDonald, Currie & Co. Chartered Accountants

LIABILITIES

CURRENT LIABILITIES	
Bank advances — secured (note 2)	$ 355,427
Accounts payable and accrued liabilities	255,768
Deposits from customers	88,235
	699,430
LONG-TERM DEBT	
7½ % mortgage loan due 1979 less current instalments of $2,496	18,304
DEFERRED INCOME TAXES	57,250
	774,984

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 5)	
Authorized — 2,000,000 common shares without par value	
Issued and fully paid — 950,000 common shares	3,864,770
RETAINED EARNINGS	38,667
	3,903,437
	$4,678,421

Signed on behalf of the Board

S. H. Cuthbertson Director

Ian G. Monch Director

C&C Yachts Limited and subsidiary companies

Consolidated statements of earnings and retained earnings
For the period from September 26, 1969 to September 30, 1970

STATEMENT OF EARNINGS

SALES	$ 3,894,127
COST OF SALES	3,123,117
GROSS PROFIT	771,010
EXPENSES	
Selling	192,752
Administrative	425,592
	618,344
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	152,666
PROVISION FOR INCOME TAXES	
Current	61,461
Deferred	13,000
	74,461
EARNINGS BEFORE EXTRAORDINARY ITEM	78,205
LOSS ON REVALUATION, NET OF INCOME TAX (NOTE 1 (b))	8,769
NET EARNINGS FOR THE PERIOD	69,436
EARNINGS PER SHARE BASED ON THE SHARES OUTSTANDING AT SEPTEMBER 30, 1970	
Earnings before extraordinary item	8 cents
Net earnings for the period	7 cents

STATEMENT OF RETAINED EARNINGS

BALANCE — BEGINNING OF PERIOD	—
Net earnings for the period	$ 69,436
Financing expenses — net of income tax of $35,500	30,769
BALANCE — END OF PERIOD	38,667

C&C Yachts Limited and subsidiary companies

Consolidated statement of source and use of working capital
For the period from September 26, 1969 to September 30, 1970

SOURCE OF WORKING CAPITAL	
Net earnings for the period	$ 69,436
Items not affecting working capital —	
Depreciation	116,141
Deferred income taxes	13,000
Provided from operations	198,577
Issue of common shares for cash	1,464,790
Deferral of income taxes previously included in current liabilities	22,500
	1,685,867
USE OF WORKING CAPITAL	
Purchase of fixed assets —net	391,935
7½% mortgage instalments	2,496
Financing expenses — net of income tax	30,769
Payment of notes issued in connection with the acquisition of shares in subsidiary companies (note 1(a))	488,412
	913,612
WORKING CAPITAL GENERATED DURING THE PERIOD	772,255
Less: Working capital deficiency of subsidiary companies at date of acquisition	95,863
WORKING CAPITAL — END OF PERIOD	676,392

Notes to consolidated financial statements

1. PRINCIPLES OF CONSOLIDATION

a. The company was incorporated under the laws of Ontario on September 26, 1969. Pursuant to agreements dated October 10, 1969 the company acquired all of the issued and outstanding shares of Belleville Marine Yards Limited, Bruckmann Manufacturing Limited, Cuthbertson & Cassian Limited and Hinterhoeller Limited in exchange for the issue of 599,995 shares valued at $2,399,980 and notes of $488,412. This transaction was accounted for as a "purchase" and accordingly these financial statements include the earnings of the above subsidiary companies from October 1, 1969.

b. Assets and liabilities in United States dollars have been converted at the rate of exchange prevailing at September 30, 1970. During the year the Canadian currency was allowed to float and as a result the company incurred an exchange loss of $8,769 net of income taxes. This loss is shown as an extraordinary item on the statement of earnings.

2. SECURITY FOR BANK ADVANCES

Bank advances are secured by a general assignment of book debts.

3. INVENTORIES

Inventories are comprised as follows:

Finished yachts	$ 80,193
Yachts in process	197,424
Raw materials and supplies	436,018
	$ 713,635

4. FIXED ASSETS

Fixed assets and related accumulated depreciation comprise the following:

	Cost	Accumulated Depreciation	Net
Land	$ 21,652	—	$ 21,652
Buildings	573,821	$ 91,346	482,475
Machinery and equipment	565,960	260,580	305,380
	$1,161,433	$ 351,926	$ 809,507

5. CAPITAL STOCK

Subsequent to incorporation the company issued fully paid common shares as follows:

	Number of Shares	
For cash	350,005	$1,464,790
For all the issued capital stock of:		
Belleville Marine Yards Limited	149,998	599,992
Bruckmann Manufacturing Limited	149,999	599,996
Cuthbertson & Cassian Limited	149,999	599,996
Hinterhoeller Limited	149,999	599,996
	950,000	$3,864,770

The 599,995 common shares issued for other than cash were issued at a consideration which the directors determined to be the fair equivalent of a cash consideration of $2,399,980.

Pursuant to an agreement dated November 25, 1969 600,000 common shares of the company are held in escrow with a trustee. These common shares may not be released, transferred or hypothecated without the prior written consent of the Ontario Securities Commission.

6. EXPENSES

The following amounts are included in the statement of earnings:

Remuneration paid by the company and its subsidiaries to the directors and senior officers (as defined by the Ontario Corporations Act)	$ 128,500
Depreciation	116,141

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